

Message Text

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PAGE 01 LONDON 02966 01 OF 03 251841Z

43

ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-11 ISO-00 SP-02 AID-05 EB-07

NSC-05 CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 /131 W

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R 251829Z FEB 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9313

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

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USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

USDOC WASHDC

UNCLAS SECTION 01 OF 03 LONDON 02966

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: L/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS DURING THE PERIOD FEBRU-

ARY 19 THROUGH FEBRUARY 25, 1976

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PAGE 02 LONDON 02966 01 OF 03 251841Z

BEGIN SUMMARY. WHILE THE GOVERNMENT WHITE PAPER ON PUBLIC EXPENDITURE (SEE LONDON 2601 AND 2728) WAS THE MAIN TOPIC OF DISCUSSION, THERE WERE GROWING INDICATIONS THAT THE ECONOMY WAS SLOWLY TURNING UPWARD WITHOUT THE BENEFIT OF ANY MAJOR FISCAL STIMULUS. MOST HEARTENING WAS THE LOWER RATE OF INCREASE IN UNEMPLOYMENT. HOWEVER, ORELIMINARY INDICATIONS THAT BOTH GROSS DOMESTIC PRODUCT AND CONSUMER EXPENDITURE STABILIZED DURING THE FOURTH QUARTER WERE NO LESS WELCOME. AVERAGE EARNINGS AND WAGES CONTINUED TO PORTEND AN EASING IN LABOR COSTS WHILE THE GROWTH OF THE MONETARY AGGREGATES WAS SLOWED BY HEAVY SALES OF GOVERNMENT DEBT TO THE NON-BANK PUBLIC.

1. UNEMPLOYMENT. THE FEBRUARY UNEMPLOYMENT FIGURES SHOWED THE SMALLEST MONTHLY INCREASE IN OVER A YEAR. THE SEASONALLY ADJUSTED INCREASE FOR THE MONTH WAS 21,300 BRINGING THE JOBLESS TOTAL TO 1.185 AFTER 1.164 MILLION IN JANUARY. THE CRUDE FEBRUARY DATA SHOWED 126,000 FEWER UNEMPLOYED WITH THE UNADJUSTED TOTAL STANDING AT 1.304 MILLION AFTER 1.43 MILLION IN FEBRUARY. THIS DOWNWARD MOVEMENT WAS DUE TO THE RETURN TO SCHOOL OF STUDENTS ELIGIBLE TO COLLECT UNEMPLOYMENT BENEFITS DURING THE RECESS BETWEEN SEMESTERS. THE UNEMPLOYMENT RATE (S.A.) WAS 5.2 PERCENT IN FEBRUARY AFTER 5.1 PERCENT IN JANUARY. (FURTHER DETAILS WILL BE REPORTED IN SEPTEL.)

2. GROSS DOMESTIC PRODUCT. THE INITIAL ESTIMATE OF FOURTH QUARTER GDP BASED ON OUTPUT DATA AT 1970 PRICES PROVIDES ADDITIONAL EVIDENCE THAT THE BRITISH ECONOMY REACHED THE TROUGH OF THE RECESSION DURING THE THIRD QUARTER. THE OUTPUT BASED GDP INDEX (1970 EQUALS 100) IS PROVISIONALLY ESTIMATED TO HAVE RISEN BY 0.9 PERCENT BETWEEN THE THIRD AND FOURTH QUARTERS. THE INDEX NOW STANDS AT 107.6 AFTER 106.6 IN THE THIRD QUARTER. BETWEEN THE FOURTH QUARTERS OF 1974 AND 1975 THIS MEASURE OF NATIONAL OUTPUT FELL BY 2.0 PERCENT. THE MAJOR IMPETUS TO THE FOURTH QUARTER IMPROVEMENT HAS BEEN ATTRIBUTED TO A HIGHER LEVEL OF INDUSTRIAL PRODUCTION

3. CONSUMER EXPENDITURE. PRELIMINARY RESULTS SHOW THAT UNCLASSIFIED

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PAGE 03 LONDON 02966 01 OF 03 251841Z

CONSUMER EXPENDITURE IN THE FOURTH QUARTER OF 1975 REVERSED THE DECLINE OF THE FIRST NINE MONTHS OF THE YEAR EXPRESSED AT 1970 PRICES, BRITISH CONSUMERS SPENT 8.83 BILLION POUNDS DURING THE FOURTH QUARTER, AN INCREASE OF 0.2 PERCENT OVER THE THIRD QUARTER FIGURE OF 8.814 BILLION POUNDS. THE FOURTH QUARTER INCREASES IN "FOOD, DRINK AND TOBACCO", "HOUSING, FUEL AND LIGHT" AND DURABLE HOUSEHOLD GOODS MORE THAN OFFSET DECLINES IN "CLOTHING AND FOOTWEAR"

AND "CARS AND MOTORCYCLES." BETWEEN THE FOURTH QUARTER OF 1974 AND THE FOURTH QUARTER OF 1975, CONSUMER EXPENDITURE FELL BY 2.6 PERCENT.

4. MONEY SUPPLY. DURING THE PERIOD BETWEEN DECEMBER 10, 1975 AND JANUARY 21, 1976 THE MONETARY AGGREGATES SHOWED LITTLE MOVEMENT. THE MORE NARROWLY DEFINED M1 DECLINED BY 0.7 PERCENT STANDING AT 15.92 BILLION POUNDS AFTER A RISE OF 1.2 PERCENT IN DECEMBER AND A FALL OF 1.8 PERCENT IN NOVEMBER. THE BROADER MEASURE, M3, ROSE 0.9 PERCENT IN JANUARY TO 38.88 AFTER DECLINES OF 0.5 AND 0.7 PERCENT IN DECEMBER AND NOVEMBER RESPECTIVELY. WHILE BOTH M1 AND M3 HAVE DROPPED SLIGHTLY OVER THE LATEST 3-MONTH PERIOD, IN THE YEAR THROUGH JANUARY 1976 M1 ROSE BY 11.2 PER-

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PAGE 01 LONDON 02966 02 OF 03 251844Z

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LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 /131 W

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R 251829Z FEB 76

FM AMEMBASSY LONDON

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INFO AMEMBASSY BERN

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UNCLAS SECTION 02 OF 03 LONDON 02966

DEPT PASS TREAS

CENT WHILE M3 WAS 6.3 PERCENT HIGHER. THE RECENT BEHAVIOR OF THE MONETARY AGGREGATES REFLECTS HEAVY SALES OF GILT EDGED SECURITIES TO THE NON-BANK PUBLIC AND THE CONTINUING ABSENCE ON A LARGE SCALE OF CORPORATE BORROWERS
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PAGE 02 LONDON 02966 02 OF 03 251844Z

FROM THE BOND MARKETS

5. WAGES AND EARNINGS. THE INDEX OF AVERAGE EARNINGS (1970 EQUALS 100) STOOD AT 248.6 IN DECEMBER, AN INCREASE OF 2.1 PERCENT OVER THE NOVEMBER FIGURE OF 243.5. THE INCREASE OVER THE TWELVE MONTHS TO DECEMBER WAS 19.3 PERCENT -- THE LOWEST ANNUAL INCREASE SINCE JULY 1974 -- COMPARED WITH 21.2 PERCENT OVER THE TWELVE MONTHS TO NOVEMBER. WITH THE INDEX OF RETAIL PRICES HAVING INCREASED BY 24.9 PERCENT IN THE TWELVE MONTHS TO DECEMBER, THE EROSION IN REAL INCREASES CONTINUED. FIGURES FOR BASIC WAGE RATES, WHICH EXCLUDE OVERTIME AND BONUSES, SHOW AN INCREASE OF 1.7 PERCENT BETWEEN DECEMBER (197.0) AND JANUARY (200.4) COMPARED WITH 1.3 PERCENT BETWEEN NOVEMBER AND DECEMBER (INFORMATION FOR THIS INDEX (JULY 31, 1972 EQUALS 100) IS A MONTH AHEAD OF THAT FOR EARNINGS). THE ANNUAL RATE OF INCREASE IN THE TWELVE MONTHS TO JANUARY WAS 26.2 PERCENT)***A***.

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LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 /131 W

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R 251829Z FEB 76

FM AMEMBASSY LONDON

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INFO AMEMBASSY BERN

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UNCLAS SECTION 03 OF 03 LONDON 02966

DEPT PASS TREAS

7. EXCHANGE RATE AND GOLD

EXCHANGE EFFECTIVE

DATE RATE (\$) DEPRECIATION GOLD

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PAGE 02 LONDON 02966 03 OF 03 251848Z

PERCENT)

2/18 2.0245 30.4 131.25

2/19 2.0240 30.4 131.00

2/20 2.0245 30.3 131.75

2/23 2.0250 30.3 131.75

2/24 2.0250 30.3 132.50

CHANGE 2/17-2/24 UP 0.0025 UNCHANGED UP 2.50

8. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
2/18	0.65	1.95	3.75
2/19	0.60	1.90	3.80
2/20	0.60	1.88	3.78
2/23	0.58	1.85	3.75
2/24	0.58	1.90	3.80

CHANGE 2/17-2/24 UP 0.03 UP 0.05 DN 0.05

(ALL FIGURES IN CENTS)

9. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
2/18	4-7/8	5-1/2	6-1/4
2/19	5-1/4	5-5/8	6-1/4
2/20	5-1/4	5-5/8	6-1/4
2/23	5-1/4	5-3/4	6-1/2
2/24	5-1/2	5-5/8	6-1/4

CHANGE 2/17-2/24 UP 1/8 UP 1/8 UNCHANGED

10 LOCAL AUTHORITY DEPOSIT RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
2/18	8-5/8	8-15/16	9-3/16
2/19	8.13/16	9	9-1/4
2/20	83/4	9-1/16	93/16
2/23	8-15/16	9-1/16	9-3/16
2/24	8-7/8	9-1/16	9-1/4

CHANGE 2/17-2/24 UP 5/16 UP 5/32 DN 1/16

THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 9-1/2
PERCENT ON FRIDAY, FEBRUARY 20.

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, ECONOMIC REPORTS, ECONOMIC TRENDS
Control Number: n/a
Copy: SINGLE
Draft Date: 25 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LONDON02966
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760071-0144
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760215/aaaaamnw.tel
Line Count: 308
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: castelsl
Review Comment: n/a
Review Content Flags:
Review Date: 15 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 JUL 2004 by schwenja>; APPROVED <27 AUG 2004 by castelsl>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS DURING THE PERIOD FEBRU- ARY 19 THROUGH FEBRUARY 25, 1976
TAGS: ECON, UK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006